Gazelle Finance
Universal Credit Organization LLC

Financial Statements
for the year ended 31 December 2020

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Independent Auditors' Report

To the Board of Directors of Gazelle Finance Universal Credit Organization LLC

Opinion

We have audited the financial statements of Gazelle Finance Universal Credit Organization LLC (the "Organization"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Tigran Gasparyan
Managing Partner, Director of KPMG Armenia LLC

KPMG Armenia LLC

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02529689

KPMG Armenia LLC
5 August 2021

	Note	2020 AMD'000	2019 AMD'000
Interest income calculated using the effective interest rate	4	60,660	1,867
Other interest income	4	145,430	45,838
Interest expense		(127,952)	(18,084)
Net interest income		**78,138**	**29,621**
Net changes in fair value of portfolio investments at fair value through profit or loss		(485,855)	16,584
Net foreign exchange gains/(losses)		24,847	(2,082)
Other operating income		686	-
Operating (loss)/income		**(382,184)**	**44,123**
Net impairment losses on financial instruments at amortized cost		(40,122)	(13,710)
Operating (loss)/income after impairment		**(422,306)**	**30,413**
Personnel expenses		(95,578)	(80,460)
General and administrative expenses	5	(78,348)	(47,412)
Loss before income tax		**(596,232)**	**(97,459)**
Loss and other comprehensive loss for the year		**(596,232)**	**(97,459)**

The financial statements as set out on pages 5 to 36 were approved by management on 5 August 2021 and were signed on its behalf by:

Tigran Hovhannisyan
Executive Director

Tatevik Galayaryan
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Note	2020 AMD'000	2019 AMD'000
Assets			
Cash and cash equivalents	6	702,147	45,143
Portfolio investments at fair value through profit or loss	7	1,700,995	1,214,965
Portfolio investments at amortized cost	8	737,888	167,466
Other assets		16,572	4,471
Equipment and intangible assets		15,556	17,227
Total assets		**3,173,158**	**1,449,272**
Liabilities			
Borrowings	10	2,889,711	1,214,167
Other payables		19,109	15,418
Total liabilities		**2,908,820**	**1,229,585**
Equity	9		
Charter capital		1,002,146	361,263
Accumulated losses		(737,808)	(141,576)
Total equity		**264,338**	**219,687**
Total equity and liabilities		**3,173,158**	**1,449,272**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

	Notes	2020 AMD'000	2019 AMD'000
Cash flows from operating activities			
Interest receipts		244,106	51,158
Personnel expenses and other general administrative expenses payments		(163,722)	(114,931)
(Increase)/decrease in operating assets			
Portfolio investments		(1,383,097)	(1,366,435)
Other assets		(57,801)	(12,981)
Prepayments and advances		1,826	(4,098)
Cash flows used in operations		**(1,358,688)**	**(1,447,287)**
Cash flows from investing activities			
Purchases of equipment and intangible assets		(3,481)	(6,910)
Cash flows used in investing activities		**(3,481)**	**(6,910)**
Cash flows from financing activities			
Proceeds from charter capital		640,883	142,282
Proceeds from borrowings		1,338,597	1,189,775
Cash flows from financing activities		**1,979,480**	**1,332,057**
Net increase/(decrease) in cash and cash equivalents		**617,311**	**(122,140)**
Cash and cash equivalents at 1 January		45,143	165,699
Effect of exchange rate fluctuations on cash and cash equivalents		39,693	1,584
Cash and cash equivalents at 31 December	6	**702,147**	**45,143**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

'000 AMD	**Charter capital**	**Accumulated losses**	**Total equity**
Balance at 1 January 2019	218,982	(44,117)	174,865
Transactions with owners, recorded directly in equity			
Contribution to charter capital	142,281	-	142,281
Total transactions with owners	**142,281**	-	**142,281**
Total comprehensive loss			
Loss for the year	-	(97,459)	(97,459)
Total comprehensive loss for the year	**-**	**(97,459)**	**(97,459)**
Balance at 31 December 2019	**361,263**	**(141,576)**	**219,687**
Balance at 1 January 2020	361,263	(141,576)	219,687
Transactions with owners, recorded directly in equity			
Contribution to charter capital	640,883	-	640,883
Total transactions with owners	**640,883**	-	**640,883**
Total comprehensive loss			
Loss for the year	-	(596,232)	(596,232)
Total comprehensive loss for the year	**-**	**(596,232)**	**(596,232)**
Balance at 31 December 2020	**1,002,146**	**(737,808)**	**264,338**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organization and operations

Gazelle Finance Universal Credit Organization LLC (the “Organization”) was established in the Republic of Armenia as a limited liability company in 2018. Its principal activity is provision of borrowings to corporate customers. The activities of the Organization are regulated by the Central Bank of Armenia (the CBA). The Organization has received a credit organization license on 20 July 2018.

The Organization’s registered office is 105/1 Teryan Street, Yerevan 0002, Republic of Armenia.

The Organization is wholly owned by Gazelle Finance Holding Coöperatief U.A.

Related party transactions are described in detail in Note 14.

(b) Armenian business environment

The Organization’s operations are located in Armenia. Consequently, the Organization is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Armenia.

The breakout of armed conflict in Nagorno-Karabakh in September 2020 followed by cease-fire arrangement over disputed Nagorno-Karabakh territories and the COVID-19 coronavirus pandemic has further increased uncertainty in the business environment.

The financial statements reflect management’s assessment of the impact of the Armenian business environment on the operations and financial position of the Organization. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except portfolio investments at fair value through profit or loss, which are stated at fair value.

(c) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram (“AMD”), which is the Organization’s functional currency and the currency in which these financial statements are presented. Financial information presented in AMD has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements and estimation uncertainties that have significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

– classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3(c)(i);
– establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, selection and approval of models used to measure ECL – Note 11(c).
– estimates of fair values of financial assets and liabilities – Note 15.

The Organization has not recognized deferred tax asset in respect of tax losses amounting to AMD 127,562 thousand, as it is not probable that future taxable profit will be available against which the Organization can utilize the benefits therefrom.

(e) Changes in accounting policies and presentation

A number of amendments to the existing standards are effective from 1 January 2020 but they do not have a material effect on the Organization’s financial statements.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the AMD at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents consist of unrestricted current account balances held with banks and are used by the Organization in the management of short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(c) Financial assets and financial liabilities

(i) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Organization may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Organization may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Organization makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
– how the performance of the portfolio is evaluated and reported to the Organization's management;
– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
– the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Organization's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Organization considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Organization considers:

– contingent events that would change the amount and timing of cash flows;
– leverage features;
– prepayment and extension terms;

- terms that limit the Organization's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Organization changes its business model for managing financial assets.

Financial liabilities

The Organization classifies its financial liabilities as measured at amortized cost.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

The Organization derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Organization neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Organization is recognised as a separate asset or liability.

In transactions in which the Organization neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Organization continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Organization derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Organization evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

– fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
– other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms.

The Organization performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Organization assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Organization analogizes to the guidance on the derecognition of financial liabilities.

The Organization concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial asset;
– change in collateral or other credit enhancement;
– change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Organization plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Organization further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Organization first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

The Organization derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Organization performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Organization concludes that the modification is substantial as a result of the following qualitative factors:

– change the currency of the financial liability;
– change in collateral or other credit enhancement;
– inclusion of conversion option;
– change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

The Organization recognises loss allowances for expected credit losses (ECL) on the portfolio investments measured at amortized cost.

The Organization measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

– other financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1’ financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as ‘Stage 2’ financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and ‘Stage 3’ financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

– *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Organization expects to receive);
– *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Organization assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past due event;
– the restructuring of a loan or advance by the Organization on terms that the Organization would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost*: as a deduction from the gross carrying amount of the assets.

Write-offs

Portfolio investments are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Organization determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Organization's procedures for recovery of amounts due.

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises, major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

– computers and equipment	3 to 8 years
– fixtures and fittings	3 to 5 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 8 years.

(f) Repossessed assets

Repossessed assets are measured at the lower of cost and net realizable value.

(g) Impairment of non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Organization has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(i) Charter capital

The shares of the Organization are redeemable at the option of the participant under the legislation of the Republic of Armenia. The entity is obliged to pay a withdrawing participant its share of the net assets of the entity for the year of withdrawal in cash or, with the consent of the participant, by an in-kind transfer of assets.

In accordance with IAS 32 *Financial Instruments: Presentation* the net assets attributable to participants are classified as equity in the period presented in these financial statements because the management concluded that the Organization's puttable financial instruments satisfy all the conditions set in IAS 32 for equity presentation of puttable instruments.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

(i) Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan of the Organization. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.
The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Organization expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority.

(k) Interest

Effective interest rate

Interest income is recognized in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Organization estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(c)(iv).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes interest on financial assets measured at amortized cost.

Other interest income presented in the statement of profit or loss and other comprehensive income includes interest income on portfolio investments measured at FVTPL.

Interest expense presented in the statement of profit or loss and other comprehensive income includes financial liabilities measured at amortized cost.

(l) Leases

At inception of a contract, the Organization assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Organization allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Organization recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Organization by the end of the lease term or the cost of the right-of-use asset reflects that the Organization will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Organization’s incremental borrowing rate. Generally, the Organization uses its incremental borrowing rate as the discount rate.

The Organization determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The Organization has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Organization recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(m) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 with earlier application permitted; however, the Organization has not early adopted them in preparing these financial statements.

A. Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity as appropriate. The comparatives are not restated.

B. Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

(i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability. As at 31 December 2020 the Organization had no LIBOR loans that would be subject to IBOR reform.

(ii) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas.

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

Due to absence of hedge accounting the Group does not expect an effect because of IBOR transition.

(iii) Disclosure

The amendments will require the Organization to disclose additional information about the Organization's exposure to risks arising from interest rate benchmark reform and related risk management activities.

(iv) Transition

The Organization plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

C. Other standards

The following new and amended standards are not expected to have a significant impact on the Organization's financial statements.

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts*.

4 Interest income

	2020 AMD'000	2019 AMD'000
Fixed interest on IPL	89,426	26,821
Income participation component on IPL	56,004	19,017
	145,430	**45,838**
Portfolio investments at amortized cost	60,660	1,494
Other interest income	-	373
	60,660	**1,867**

5 Other general administrative expenses

	2020 AMD'000	2019 AMD'000
Legal and professional service fees	39,603	16,933
Rent expenses	11,880	11,119
Depreciation and amortization	5,153	3,679
Building, equipment and intangible assets maintenance and servicing	4,589	5,496
Business trip expenses	1,725	4,418
Other expenses	15,398	5,767
	78,348	**47,412**

6 Cash and cash equivalents

	2020 AMD'000	2019 AMD'000
Current accounts in banks		
- rated B- to B+	702,147	45,143
Total cash and cash equivalents	**702,147**	**45,143**

The Organization uses credit ratings per Standard & Poor's rating agency in disclosing credit quality of cash and cash equivalents.

Cash and cash equivalents are fully in Stage 1 and measured at amortized cost as at 31 December 2020 and 31 December 2019.

As at 31 December 2020 the Organization has placement with one bank (2019: one bank), whose balances exceed 10% of equity. The gross value of these balance as at 31 December 2020 is AMD 702,148 thousand (2019: AMD 45,143 thousand).

7 Portfolio investments at fair value through profit or loss

Income Participation Loans ("IPL") debt investments and equity investments, are measured at fair value through profit or loss.

As at 31 December 2020, the Organization had ten IPL investments and one equity investment outstanding. The following table provides information about the details of the investments:

'000 AMD	Sector	Maturity	Face value	Net effect of change in fair value	Fair value
IPL debt investment	Manufacturing	2024-2025	440,057	(102,182)	337,875
IPL debt investment	Retail, trade and services	2024-2025	454,875	(52,320)	402,555
IPL debt investment	Hospitality and tourism	2023-2025	862,274	(115,267)	747,007
IPL debt investment	Construction	2025	209,036	(23,390)	185,646
Total IPL investments at fair value through profit or loss			**1,966,242**	**(293,159)**	**1,673,083**
Equity investment	Retail, trade and services	n/a	23,850	4,062	27,912
Total equity investments at fair value through profit or loss			**23,850**	**4,062**	**27,912**
Total non-current financial assets at fair value through profit or loss			**1,990,092**	**(289,097)**	**1,700,995**

As of 31 December 2019, the Organization had seven IPL investments and one equity investments outstanding. The following table provides information about the details of the investments:

'000 AMD	Sector	Maturity	Face value	Net effect of change in fair value	Fair value
IPL debt investment	Retail, trade and services	2024	359,775	8,694	368,469
IPL debt investment	Light industry	2024	332,681	5,195	337,876
IPL debt investment	Hospitality and tourism	2024	239,850	-	239,850
IPL debt investment	Medical and surgical supplies	2024	122,324	2,039	124,363
IPL debt investment	Manufacturing	2024	119,925	632	120,557
Total IPL investments at fair value through profit or loss			**1,174,555**	**16,560**	**1,191,115**
Equity investment	Retail and trade services	n/a	23,850	-	23,850
Total equity investments at fair value through profit or loss			**23,850**	**-**	**23,850**
Total non-current financial assets at fair value through profit or loss			**1,198,405**	**16,560**	**1,214,965**

As at 31 December 2020 the Organization had IPL debt investments and equity investment to ten counterparties (2019: 8 counterparties), the fair value of which exceed 10% of equity. The fair value of these balances as at 31 December 2020 is AMD 1,680,017 thousand (2019: AMD 1,214,965 thousand).

The Organization's equity and IPL debt investments are initially recognized at fair value and are subsequently measured at fair value through profit or loss. Fair values for IPL debt investments were derived using the discount rate adjustment technique where the cash flows were contractually guaranteed. This valuation technique was calibrated so that at initial recognition the result of the valuation technique equalled the transaction price. Fair values for equity investments were also derived applying the discount rate adjustment technique but cash flows considered were cash flows generating contractually agreed minimum IRR at the times of exercising put option with cost of equity applied as a discount rate.

The movements of unrealized gain/loss on portfolio assets measured at fair value through profit or loss for the period from 1 January 2020 to 31 December 2020 were as follows:

'000 AMD **Unrealized gain/(loss) on investments**	**IPL**	**Equity investment**	**Total**
1 January 2020	16,560	-	16,560
Total unrealized gain (loss) of the period	(489,917)	4,062	(485,855)
Derecognition of investment	180,198	-	180,198
31 December 2020	**(293,159)**	**4,062**	**(289,097)**

8 Portfolio investments at amortized cost

Investments in loans with fixed interest rate are measured at amortized cost.

	2020 **AMD'000**	**2019** **AMD'000**
Portfolio investments at amortized cost (gross)	723,597	168,437
Technical assistance loans	65,115	12,739
ECL	(50,824)	(13,710)
	737,888	**167,466**

As at 31 December 2020 portfolio investments at amortized cost were issued to two counterparties (2019: one counterparty).

As at 31 December 2020 portfolio investments at amortized cost and technical assistance loans with carrying amount of AMD 723,473 thousand were classified to Stage 1 and AMD 14,415 thousand to Stage 3 (2019: carrying amount of AMD 167,466 was fully classified to Stage 1).

The movement in the allowance for impairment in respect of portfolio investments measured at amortized cost during the year was as follows:

	2020 **AMD'000**	**2019** **AMD'000**
Balance at the beginning of the year	13,710	-
Impairment loss recognized	40,122	13,710
Write-off	(6,173)	-
FX revaluation	3,165	-
Balance at the end of the year	**50,824**	**13,710**

9 Equity

(a) Charter capital

The owners of charter capital are entitled to receive dividends as declared from time to time.

In 2020 the Organization attracted charter capital with total amount of AMD 640,883 thousand (2019: AMD 142,281 thousand) from its sole participant.

(b) Dividends

No dividends were declared and paid during 2020 and 2019. No dividends were proposed after 31 December 2020 and up to the date these financial statements were authorized.

10 Borrowings

	2020 AMD'000	2019 AMD'000
Unsecured borrowings from parent company	2,787,806	1,186,824
Technical assistance loans from parent company	101,905	27,343
	2,889,711	**1,214,167**

(a) Terms and debt repayment schedule

Terms and conditions of outstanding borrowings were as follows:

				2020		2019	
'000 AMD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured borrowings from parent company	USD	8-78%-10%	2026-2027	2,823,830	2,787,806	1,192,173	1,186,824
Technical assistance loans from parent company	USD	0%	On demand	101,905	101,905	27,343	27,343
				2,925,735	**2,889,711**	**1,219,516**	**1,214,167**

(b) Reconciliation of movements of liabilities to cash flows arising from financing activities

	2020 AMD'000	2019 AMD'000
Balance at 1 January	1,214,167	-
Changes from financing cash flows		
Receipt	1,338,597	1,189,775
Repayments	-	-
Total changes from financing cash flows	**1,338,597**	**1,189,775**
The effect of changes in foreign exchange rates	**208,995**	**6,308**
Other changes		
Interest expense	127,952	18,084
Interest paid	-	-
Balance at 31 December 2020	**2,889,711**	**1,214,167**

11 Risk management

Management of risk is fundamental to the business of lending and is an essential element of the Organization's operations. The significant risks faced by the Organization are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Organization, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Management is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Organization operates within established risk parameters.

Credit, market and liquidity risks, both at the portfolio and transactional levels, are managed and controlled by Management.

Both external and internal risk factors are identified and managed throughout the Organization. Particular attention is given to identifying the full range of risk factors and determining the level of assurance over current risk mitigation procedures.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Management is responsible for management of market risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2020							
ASSETS							
Portfolio investment (at amortized cost)	35,033	36,495	72,990	539,295	-	54,075	737,888
Cash and cash equivalents	199,439	-	-	-	-	502,708	702,147
	234,472	**36,495**	**72,990**	**539,295**	**-**	**556,783**	**1,440,035**
LIABILITIES							
Borrowings	-	-	-	-	(2,787,806)	(101,905)	(2,889,711)
	234,472	**36,495**	**72,990**	**539,295**	**(2,787,806)**	**454,878**	**(1,449,676)**

AMD'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2019							
ASSETS							
Portfolio investment (at amortized cost)	8,537	8,537	17,074	120,579	-	12,739	167,466
Cash and cash equivalents	10,649	-	-	-	-	34,494	45,143
	19,186	**8,537**	**17,074**	**120,579**	**-**	**47,233**	**212,609**
LIABILITIES							
Borrowings	-	-	-	-	(1,186,824)	(27,343)	(1,214,167)
	19,186	**8,537**	**17,074**	**120,579**	**(1,186,824)**	**19,890**	**(1,001,558)**

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets as at 31 December 2020 and 31 December 2019. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

'000 AMD	**Average effective interest rate, %**	
	2020	**2019**
Interest bearing assets		
Portfolio investment (at amortized cost) (USD)	19.2%	17.0%
Cash and cash equivalents (AMD)	2.0%	2.0%
Borrowings (USD)	8.8%-10.0%	7.4%-7.8%

Interest rate sensitivity analysis

The management of interest rate risk, based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of the sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2020 and 31 December 2019 is as follows:

	2020 AMD'000	**2019 AMD'000**
100 bp parallel fall	(1,635)	(211)
100 bp parallel rise	1,635	211

(ii) Currency risk

The Organization has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2020 and 31 December 2019:

AMD'000	**USD 2020**	**USD 2019**
ASSETS		
IPL debt investments	1,673,083	1,191,115
Equity investments	27,912	23,850
Portfolio investment (at amortized cost)	737,888	167,466
Cash and cash equivalents	502,629	34,494
Total assets	**2,941,512**	**1,416,925**
LIABILITIES		
Borrowings	(2,889,711)	(1,214,167)
Total liabilities	**(2,889,711)**	**(1,214,167)**
Net position	**51,801**	**202,758**

A weakening (strengthening) of the AMD, as indicated below, against USD at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis and is based on foreign currency exchange rate variances that the Organization considered to be reasonably possible at the end of the reporting period. The income (expense) from variance in foreign currency exchange rates is non-taxable (non-deductible). The analysis assumes that all other variables, in particular interest rates, remain constant.

’000 AMD	**Strengthening**	**Weakening**
	Profit or loss	**Profit or loss**
31 December 2020		
AMD 10% movement against USD	(5,180)	5,180
31 December 2019		
AMD 10% movement against USD	(20,276)	20,276

(c) Credit risk

Credit risk is the risk of financial loss to the Organization if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Organization has policies and procedures in place to manage credit exposures (both for recognized financial assets and unrecognized contractual commitments). The credit policy is reviewed and approved by the Management.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2020 AMD’000	**2019 AMD’000**
Assets		
IPL debt investments	1,673,083	1,191,115
Equity investments	27,912	23,850
Portfolio investment (at amortized cost)	737,888	167,466
Cash and cash equivalents	702,147	45,143
Total maximum exposure	**3,141,030**	**1,427,574**

Credit risk - Amounts arising from ECL

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Organization considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Organization uses three criteria for determining whether there has been a significant increase in credit risk for cash and cash equivalents:

- quantitative test based on movement in rating compared to initial recognition (change in external grade by 1 step downwards);
- qualitative factors based on Organization's expert judgement;
- backstop of 30 days past due.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.
The Organization uses information from external credit reference agencies for determining PD.

The Organization uses external benchmarks to derive LGD parameters.

EAD represents the expected exposure in the event of a default. The Organization derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Portfolio investment (at amortized cost)	737,888	Moody's default study	-
Cash and cash equivalents	702,147	Moody's default study	Moody's recovery studies

(d) Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Organization maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial assets and liabilities.

The maturity analysis for financial assets and liabilities as at 31 December 2020 and 31 December 2019 is as follows:

31 December 2020

'000 AMD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Borrowings	101,905	-	-	-	4,213,072	4,314,977	2,889,711
Other payables	2,481	-	4,800	-	-	7,281	7,281
Total financial liabilities	**104,386**	**-**	**4,800**	**-**	**4,213,072**	**4,322,258**	**2,896,992**

31 December 2019

'000 AMD	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Borrowings	-	-	-	-	1,961,770	1,961,770	1,214,167
Other payables	3,481	-	4,000	-	-	7,481	7,481
Total financial liabilities	**3,481**	**-**	**4,000**	**-**	**1,961,770**	**1,969,251**	**1,221,648**

The table below shows an analysis, by expected maturities, of amounts recognized in the statement of financial position as at 31 December 2020 and 31 December 2019:

31 December 2020

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
ASSETS							
IPL debt investments	33,118	66,236	298,062	1,275,667	-	-	1,673,083
Equity investments	-	-	-	-	27,912	-	27,912
Portfolio investment (at amortized cost)	14,704	24,332	109,494	589,358	-	-	737,888
Other assets	-	-	-	-	14,300	2,272	16,572
Cash and cash equivalents	702,147	-	-	-	-	-	702,147
Property, equipment and intangible assets	-	-	-	-	-	15,556	15,556
Total assets	**749,969**	**90,568**	**407,556**	**1,865,025**	**42,212**	**17,828**	**3,173,158**
LIABILITIES							
Borrowings	101,905	-	-	2,787,806	-	-	2,889,711
Other payables	2,481	-	7,910	-	-	-	10,391
Payables to employees	-	-	-	-	8,718	-	8,718
Total liabilities	**104,386**	**-**	**7,910**	**2,787,806**	**8,718**	**-**	**2,908,820**
Net position	**645,583**	**90,568**	**399,646**	**(922,781)**	**33,494**	**17,828**	**264,338**

31 December 2019

AMD'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	No maturity	Overdue	Total
ASSETS							
IPL debt investments	19,852	59,556	158,815	952,892	-	-	1,191,115
Equity investments	-	-	-	-	23,850	-	23,850
Portfolio investment (at amortized cost)	2,846	5,691	25,611	133,318	-	-	167,466
Other assets	373	-	-	-	4,098	-	4,471
Cash and cash equivalents	45,143	-	-	-	-	-	45,143
Property, equipment and intangible assets	-	-	-	-	17,227	-	17,227
Total assets	**68,214**	**65,247**	**184,426**	**1,086,210**	**45,175**	**-**	**1,449,272**
LIABILITIES							
Borrowings	-	-	-	1,214,167	-	-	1,214,167
Other payables	3,481	-	4,000	-	1,993	-	9,474
Payables to employees	-	-	-	-	5,944	-	5,944
Total liabilities	**3,481**	**-**	**4,000**	**1,214,167**	**7,937**	**-**	**1,229,585**
Net position	**64,733**	**65,247**	**180,426**	**(127,957)**	**37,238**	**-**	**219,687**

12 Capital management

The CBA sets and monitors capital requirements for the Organization.

The Organization defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBA, credit organizations have to maintain a minimum share capital of AMD 150,000 thousand and total capital of AMD 150,000 thousand. The Organization is in compliance with the minimum share capital and total capital requirements as at 31 December 2020 and 31 December 2019. The Organization is not imposed to other statutory requirements.

13 Contingencies

(a) Insurance

The insurance industry in the Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Organization does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property damage arising from accidents on its property or relating to operations.

Management believes that with contingency preventive and recovery controls implemented by the Organization the risk of loss or destruction of certain assets will not have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the Organization is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

(c) Taxation contingencies

The taxation system in Armenia is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes unclear, contradictory and subject to varying interpretation. Taxes are subject to review and investigation by tax authorities, which have the authority to impose fines and penalties. In the event of a breach of tax legislation, no liabilities for additional taxes, fines or penalties may be imposed by tax authorities once three years have elapsed from the date of the breach.

Transfer pricing legislation enacted in the Republic of Armenia starting from 1 January 2020. The legislation is effective for the financial year 2020 and onwards. The local transfer pricing rules are closer to OECD guidelines, but with uncertainty in practical application of tax legislation in certain circumstances.

Transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Transfer pricing rules apply to the transactions listed below, if the total amount of the controlled transaction exceeds AMD200 million in the tax year:

- cross-border transactions between related parties;
- cross-border transactions with companies registered in offshore zones, regardless of being related party or not;
- certain in-country transactions between related parties, as determined under the Armenian Tax Code.

Since there is no practice of applying the transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these financial statements.

These circumstances may create tax risks in Armenia that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

14 Related party transactions

(a) Control relationships

The Organization's parent company is Gazelle Finance Holding Coöperatief U.A., incorporated in Netherlands. The ultimate parent company of the Organization is Gazelle Fund LP, limited partnership formed in Ontario, Canada. The limited partners of the partnership are Dutch Good Growth Fund (DGGF) – 38.87%, Financierings-Maatschappij voor Ontwikkelingslanden (Dutch Development Bank) (FMO) – 30.61%, Partnership Fund – 29.15%. The partnership is managed by Gazelle Finance Partners LLC and Gazelle Finance LLC registered with the US Securities and Exchange Commission (SEC) as an Exempt Reporting Advisor. The Organization has no ultimate controlling party.

No publicly available financial statements are produced by the Organization's parent company or ultimate parent company.

(b) Transactions with members of the Management Board

Total remuneration included in personnel expenses for the year ended 31 December 2020 and 2019 is as follows:

Profit or loss	2020 AMD'000	2019 AMD'000
Employee compensation included in personnel expenses	**58,867**	**49,369**

(c) Other related party transactions

The outstanding balances and average effective interest rates as at 31 December 2020 and 2019 for transactions with the other related parties are as follows:

	2020 AMD'000	Average effective interest rate, %	2019 AMD'000	Average effective interest rate, %
Statement of financial position				
Parent company				
Borrowings	2,787,806	9.4%	1,186,824	9.1%
Technical assistance loans	101,905	-	27,343	-

Amounts included in profit or loss in relation to transactions with the other related parties for the year ended 31 December are as follows:

	2020 AMD'000	2019 AMD'000
Profit or loss		
Parent company		
Interest expense	127,952	18,084

15 Financial assets and liabilities: fair values and accounting classifications

The Organization measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The estimated fair values of all financial instruments as at 31 December 2020 and 2019 approximate their carrying amounts.

The table below analyses financial instruments measured at fair value and financial instruments for which fair values are disclosed as at 31 December 2020 and 2019 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position.

AMD'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets and liabilities measured at fair value				
2020				
Portfolio investments at fair value through profit or loss	-	-	1,700,995	1,700,995
2019				
Portfolio investments at fair value through profit or loss	-	-	1,214,965	1,214,965

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.